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SUBJ: CANADIAN-JAPANESE TRADE AND INVESTMENT

1. PM TRUDEAU'S UPCOMING VISIT TO TOKYO BEING VIEWED DOMESTICALLY AS EFFORT TO BOLSTER LAGGING ECONOMIC REALTIONSHIP WHICH IS NOT LIVING UP TO GOC "THIRD OPTION" HOPE OF DIVERSIFYING ECONOMIC TIES AND LESSENING DEPENDENCE ON US. ALTHOUGH JAPAN REMAINS CANADA'S LARGEST TRADING PARTNER AFTER US AND EC, TRADE FIGURES LAG BEHIND THOSE OF 1974 BOOM YEAR AND JAPANESE INVESTMENT IN CANADA IS PICKING UP AT DISAPPOINTING PACE FOLLOWING JAPAN'S OIL CRISIS RETRENCHMENT. FOLLOWING GIVES BRIEF SUMMARY OF CURRENT TRADE AND INVESTMENT RELATIONSHIP.

2. TRADE: CANADIAN EXPORTS TO JAPAN REACHED \$2.1 BILLION IN 1975, UP FROM \$810 MILLION IN 1970 BUT STILL BELOW 1974 RECORD OF \$2.2 BILLION. IMPORTS FROM JAPAN WERE \$1.2 BILLION AS COMPARED TO \$580 MILLION IN 1970 AND \$1.4 BILLION IN 1974. DESPITE FAVORABLE TRADE BALANCE, GOC OFFICIALS ARE UNHAPPY WITH JAPANESE PERSISTENCE IN VIEWING CANADA

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AS FOOD AND RESOURCE SUPPLIER SHILE SHUNNING INDUSTRIAL

PRODUCTS. ACCORDING TO GOC FIGURES, IN 1975 ONLY 19 PERCENT OF CANADIAN EXPORTS TO JAPAN CONSISTED OF MANUFACTURES AND SEMI-MANUFACTURES OR PROCESSED GOODS, WHILE ABOUT 25 PERCENT ACCOUNTED FOR BY FOODSTUFFS AND 55 PERCENT BY RAW MATERIALS. JAPANESE EXPORTS TO CANADA, ON THE OTHER HAND, WERE 96 PERCENT FABRICATED MATERIALS AND END PRODUCTS. JAPAN IS AT PRESENT CANADA'S MAIN MARKET FOR COAL, COPPER AND LEAD ORES AND SECOND MAJOR MARKET FOR ZINC, ALUMINUM, MOLYBDENUM AND NICKEL. MAJOR FOOD EXPORTS ARE WHEAT, RAPESEED, PORK AND FISH. GIVEN AVOWED JAPANESE GOAL OF SELF-SUFFICIENCY IN FOOD, HOWEVER, AND GROWING RELUCTANCE IN CANADA TO ALLOW LONG-RANGE SALES OF NON-REPLENISHIBLE MATERIALS, GOC FEARS THAT RELATIONSHIP MAY HAVE REACHED AN IMPASSE IN WHICH CANADA WILL INCREASINGLY BE AT DISADVANTAGE UNLESS JAPANESE TAKE STRONGER INTEREST IN CANADIAN INDUSTRIAL PRODUCTS.

3. INVESTMENT: PROBLEMS IN INVESTMENT AREA PARALLEL THOSE OF TRADE. WHILE JAPANESE SOURCES GIVE SOMEWHAT HIGHER FIGURE, STATISTICS CANADA ESTIMATES JAPANESE DIRECT INVESTMENT IN CANADA TO HAVE REACHED ONLY \$300 MILLION LEVEL FROM \$260 MILLION AT END OF 1974. MAIN INTEREST OF JAPANESE IS IN RESOURCE INVESTMENTS (RECENTLY COAL, URANIUM, AND PETROCHEMICALS) WHICH CAN ASSURE STABLE LONG-TERM SUPPLY OF SUCH MATERIALS. HERE JAPANESE COMPLAIN OF UNPREDICTABLE FEDERAL AND PROVINCIAL RESTRICTIONS (SUCH AS RECENT COAL-EXPORT REGULATIONS OF ALBERTA) AND CONTRADICTORY SIGNALS AS TO WHETHER INVESTMENT GENUINELY SOUGHT. IN MANUFACTURING SECTOR, ON THE OTHER HAND, JAPANESE ARE WARY OF CANADIAN HIGH WAGES, LABOR PROBLEMS, CURRENT ECONOMIC CONTROLS, AND FOREIGN INVESTMENT REVIEW ACT WHICH AT LEAST ONE JAPANESE BANKER CALLED SERIOUS OBSTACLE PSYCHOLOGICALLY. NET RESULT IS GOC CONCERN THAT OTHER COUNTRIES LIKE AUSTRALIA AND BRAZIL ARE FAR OUTPACING CANADA IN ATTRACTING JAPANESE INVESTMENT.

4. COMMENT: WHETHER TRUDEAU VISIT SUCCEEDS IN LIMITED OFFICIAL USE

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BRINGING CANADA'S "JAPANESE CONNECTION" INTO HIGH VOLTAGE IS VIEWED WITH SOME SKEPTICISM HERE BY ECONOMIC COMMENTATORS WHO PREDICT FRUSTRATION FOR PM'S THIRD OPTION-PACIFIC RIM POLICY UNTIL CANADIAN INVESTMENT CLIMATE IMPROVES AND MANUFACTURED GOODS BECOME MORE COMPETITIVE ON WORLD MARKETS.
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